



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Office of the Governor and Lieutenant Governor

*For the Two Fiscal Years Ended
June 30, 2020*

MARCH 2021

LEGISLATIVE AUDIT
DIVISION

20-23

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

March 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is the financial-compliance audit report of the Office of the Governor and Lieutenant Governor for the two fiscal years ended June 30, 2020. The office's financial schedules are generated from the primary accounting system. The office's management is responsible for the notes to the financial schedules.

We issued an unmodified opinion on the financial schedules for the two fiscal years ended June 30, 2020. The issuance of an unmodified opinion means the reader can rely on the information presented. This audit resulted in two audit recommendations. One recommendation relates to internal controls over the accuracy and completeness of appropriations when loading them into the Internet Budget and Reporting System. The other recommendation concerns internal controls over the preparation of the notes to the financial schedules.

In fiscal year 2020, the office received \$1.25 billion from the Coronavirus Aid, Relief, and Economic Security Act. The funds were used to provide Coronavirus relief in the form of agency reimbursements for pandemic related expenses and aid programs for the public.

The office's written response to the audit is included in the audit report on page C-1. We thank the Governor and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

**Office of the Governor
and Lieutenant
Governor** Greg Gianforte, Governor (as of January 2021)
 Kristen Juras, Lieutenant Governor (as of January 2021)
 Christine Heggem, Chief of Staff (as of January 2021)
 Kurt Alme, Budget Director (as of January 2021)
 Steve Bullock, Governor (through December 2020)
 Mike Cooney, Lieutenant Governor (through December 2020)
 Ali Bovingdon, Chief of Staff (through December 2020)
 Tom Livers, Budget Director (through December 2020)
 Errolyn Lantz, Central Services Administrator

For additional information concerning the Office of the Governor and
Lieutenant Governor, contact:

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Governor's Office
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Helena, MT 59620-0801
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MONTANA LEGISLATIVE AUDIT DIVISION

Office of the Governor and
Lieutenant Governor

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The office oversees the activities of the Executive Branch of Montana State government, as required by constitutional and statutory mandates. Most of the office's employees work in the Executive Office Program and the Office of Budget and Program Planning. Executive Branch oversight, economic development, budget preparation and monitoring, and centralized service activities are administered through these programs.

For the programs funded by the CARES Act, the office collected suggestions from the Governor's Coronavirus Task Force, state agency personnel, and the public. The office submitted suggestions for programs to the Governor, who determined which programs would be implemented. Office staff and state agency personnel worked together to develop the programs.

The Office of the Governor and Lieutenant Governor (office) received \$1.25 billion for the state of Montana from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The office distributed approximately \$93 million in fiscal year 2020 to state agencies for reimbursements of expenses related to the pandemic and for distribution of aid through programs administered by those state agencies. Some grants administered by the agencies included Social Services Nonprofit Grants, Food Bank and Food Pantry Assistance Grants, Montana Business Stabilization Grants, and Montana Food and Agriculture Adaptability Grants. We made two recommendations concerning significant deficiencies over review of appropriations loaded into the Internet Budget and Reporting System (IBARS) and internal controls over the preparation of the notes to the financial schedules.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the office's financial schedules presented fairly the activity of the office in all material respects and issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the office's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the office: 2

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 1

Partially Implemented: 0

Not Implemented: 1

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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RECOMMENDATION #1 (page 7):

Internal Controls

We recommend the Office of the Governor and Lieutenant Governor enhance internal controls over review of appropriations loaded into the Internet Budget and Reporting System (IBARS) to ensure accuracy and completeness.

Office response: **Concur**

RECOMMENDATION #2 (page 8):

Internal Controls

We recommend the Office of the Governor and Lieutenant Governor strengthen internal controls over preparation of the notes to the financial schedules to ensure accuracy and completeness.

Office response: **Concur**

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 2

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2020. The objectives of the audit were to:

1. Obtain an understanding of the office's internal control systems to the extent necessary to support our audit of the office's financial schedules, and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
2. Determine whether the office's financial schedules for each of the two fiscal years ended June 30, 2020, fairly present the results of operations and changes in fund equity.
3. Determine whether the office complied with selected state laws and regulations.
4. Determine the status of the prior audit recommendations.

Our audit efforts focused primarily on the office's financial activity related to personal services expenditures, budget authority, transfers-in, direct entries to fund equity, and Coronavirus relief funding. Our work included gaining an understanding of internal controls, completing analytic procedures, comparing recorded revenues to their underlying agreements, and reviewing transfers to other state agencies. We also tested the office's compliance with selected state laws and regulations. For Coronavirus relief funding, we performed work over transfers to state agencies, including tying transfers out of the Governor's Office to agency expenses related to the pandemic. We also reviewed agreements between the Governor's Office and the state agencies responsible for administering programs funded by the Coronavirus Relief Fund.

Coronavirus Relief Funding

The office received \$1.25 billion from the Coronavirus Aid, Relief, and Economic Security (CARES) Act for the state of Montana. The funds were to be used for expenses related to the pandemic. As of fiscal year-end 2020, the state used \$93 million of the funds for reimbursement of pandemic-related expenses for state agencies and for distribution of aid to the public through programs administered by state agencies.

CARES Act funds must be expended by December 31, 2021. Table 1 shows the transfer activity between state agencies and the office for fiscal year 2020.

Table 1
CARES Act Transfers to State Agencies
Fiscal Year 2020

Agency	Transfers
Department of Commerce	\$45,808,958
Department of Administration	\$25,658,450
Department of Public Health and Human Services	\$15,374,654
Department of Corrections	\$4,323,307
Department of Agriculture	\$763,781
Department of Natural Resources and Conservation	\$498,809
Department of Labor and Industry	\$152,631
Office of the Commissioner of Higher Education	\$126,218
Department of Environmental Quality	\$96,394
Office of the Governor and Lieutenant Governor	\$58,037
Department of Revenue	\$55,944
Montana Department of Transportation	\$55,510
Judicial Branch	\$51,300
Office of the State Public Defender	\$22,265
Office of Public Instruction	\$20,350
Montana State Library	\$15,297
Montana School for the Deaf and Blind	\$9,677
Legislative Branch	\$1,419
Total	\$93,093,001

Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting and Human Resources System and Governor and Lieutenant Governor's Office records.

The following table shows the fiscal year 2020 pandemic-related expenditures for the three agencies that expensed the highest amounts.

Table 2
Expenditures for Selected Agencies
Fiscal Year 2020

Department of Administration	\$25,658,449
Agency Reimbursement	\$586,361
Primary Election Ballot Postage	\$288,463
Local Government Reimbursements	\$22,320,940
Information Systems Platform for State Information Technology Services Division	\$2,462,685
Department of Commerce	\$45,808,957
Business Stabilization Grants	\$45,072,781
Tourism Education	\$106,475
Housing Assistance	\$497,916
Submission Management Software	\$131,785
Department of Public Health and Human Services	\$15,374,654
Public Health Clinics	\$3,700,940
Stay Connected *	\$130,804
Food Banks Pantry	\$1,332,200
Social Services Nonprofit Organizations	\$5,041,956
Telework Assistance	\$7,870
Foster Care Supplemental Payments	\$1,105,660
Public Health Education Campaign	\$37,588
Personal Protective Equipment Federal Emergency Management Agency Match / Agency Reimbursement	\$2,327,558
Behavioral / Substance Abuse Grant / Agency Reimbursement	\$1,690,078
Total	\$86,842,060

Source: Compiled by Legislative Audit Division from the Statewide Accounting, Budgeting and Human Resources System and Governor and Lieutenant Governor's Office records.

*Stay Connected was a program that provided small grants to nursing homes and congregate care facilities to allow them to purchase laptops or tablets to enable their patients to stay connected to their families during the pandemic.

The agency expenditures will be tested during the upcoming agency financial-compliance audits in accordance with Single Audit Act requirements.

Office Background

The office was authorized 58.07 full-time equivalent (FTE) positions in fiscal year 2020. The following paragraphs discuss the various divisions administered by the office, as they appear on the Schedule of Total Expenditures & Transfers-Out for the two fiscal years ended June 30, 2020, on page A-8.

Executive Office Program (27.00 FTE) provides administrative, legal, and press support for the office and assists the citizens of Montana in their interactions with Executive Branch agencies. The governor appoints and supervises directors of each executive department, appoints members to boards and commissions, and establishes advisory councils deemed necessary. In accordance with constitutional and statutory requirements, the governor submits to the legislature a budget detailing expenditures and revenues.

The executive office also administers the Office of Economic Development. This office advises the governor on policy issues related to economic development; assists the governor in accomplishing economic development initiatives; leads the state's business recruitment, retention, and expansion efforts; coordinates the development and distribution of a statewide strategic economic development marketing plan; and serves as the state's primary economic development liaison.

In fiscal year 2020, the Lieutenant Governor's Office was incorporated into the Executive Office Program. The Lieutenant Governor's Office carried out the duties prescribed in Montana's Constitution and statutes, and those delegated by the governor. The Lieutenant Governor's Office also had 3 FTE, which were combined into the Executive Office Program's FTE of 24.

Office of Budget and Program Planning (21.00 FTE) assists the governor in planning, preparing, and administering the state budget. The office also prepares and monitors revenue estimates; acts as approving authority for operational plan changes, program transfers, and budget amendments; and is the lead executive branch agency for compliance with the federal Single Audit Act. This office also includes the Centralized Services Division, which provides business services to all programs within the office, including budget preparation and monitoring, accounting, human resources, procurement, safety, and information technology support.

Mental Disabilities Board of Visitors (5.00 FTE) protects the rights of the mentally ill and the developmentally disabled. The board conducts reviews of Montana's public mental health programs and the Intensive Behavior Center, and assists individuals receiving services from these programs. The Mental Health Ombudsman is also accounted for in this program. The ombudsman is appointed by the governor to represent the interests of Montanans with regard to the need for public mental health services, to advocate for individuals who are being served, and to assist those who are seeking services for themselves or others, including individuals who are in transition from public to private services.

Executive Residence Operations (1.57 FTE) maintains the governor's official residence by managing, maintaining, equipping, and stocking the house for the governor, his family, and the official public functions hosted there.

Air Transportation Program (1.50 FTE) provides transportation for the governor and the governor's staff.

Director of Indian Affairs (2.00 FTE) serves as the governor's liaison with the state Indian tribal nations, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2018, included two recommendations.

The first recommendation concerned the spending of non-general fund money first. In the prior audit, the office charged expenditures to the General Fund when they had available authority in a State Special Revenue Fund. Section 17-2-108(1), MCA, states, "an office or entity of the executive, legislative, or judicial branch of state government shall apply expenditures against appropriated nongeneral fund money whenever possible before using general fund appropriations." The office did not concur with this recommendation during the prior audit.

The same issue occurred in fiscal year 2019, and the office accounted for the situation in the same manner, as it had in fiscal year 2018. We determined this issue resulted in a misstatement of \$35,963 and noncompliance with Section 17-2-108(1), MCA, in fiscal year 2019. We communicated the issue to the office during the current audit. The office's response indicated that the office did not agree with our position for the same reasons noted in their response to the issue from the last audit. In the office's response to the prior recommendation, they noted that House Bill (HB) 2 language of the 65th Regular Legislative Session provided General Fund authority for the expenses. They further noted that House Bill 2 indicated the legislature's express direction to spend General Fund monies on the expenses, which overrode the general rule in §17-2-108(1), MCA. We determined these restricted appropriations did not prevent the office from complying with §17-2-108(1), MCA, by spending nongeneral fund money first.

Based on our testing, the office did not implement this recommendation. During the 65th Regular Legislative Session, HB 2 was amended to appropriate the Office of Economic Development \$200,000 of one-time-only State Special Revenue Fund

spending authority for fiscal years 2018 and 2019, as a replacement to General Fund authority. The 66th Legislative Session HB 2 did not establish similar restricted appropriations to the office for fiscal years 2020 and 2021. We will make no further recommendation at this time.

In the prior audit, we determined that the office's accounting records did not accurately report the activity of multiple individually-significant transactions during the audit period. We recommended the office record revenue accruals in accordance with state accounting policy and record cash payments for valid obligations incurred during the fiscal year as actual expenditures, rather than advances and encumbrances. Based on our testing, the audit recommendation was fully implemented as of fiscal year-end 2020.

Chapter II – Findings and Recommendations

Internal Controls Over Appropriations

The Office of the Governor and Lieutenant Governor (office) can enhance internal controls to ensure the accuracy and completeness over the process of loading appropriations into the Internet Budget and Reporting System (IBARS).

During legislative session, the legislature passes a state budget. The appropriations related to this budget are loaded into IBARS, and then, uploaded into the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). We identified two errors while testing the accuracy and completeness of appropriations for fiscal years 2020 and 2021. These errors were identified when we reconciled the appropriations loaded into SABHRS to the language of House Bill (HB) 2 from the 66th Legislative Session. Descriptions of the errors identified follow:

- ♦ Public Service Commission appropriations for elected official salary adjustment of \$542,649 and \$543,077 for fiscal years 2020 and 2021, respectively, were not entered into IBARS as a separate appropriation. The aforementioned appropriations for elected official salary adjustment established the budget for the salaries of the five commissioners. In addition, HB 2 stated that if additional legislation was not passed, the elected official salary adjustment would be increased by \$159,802 and \$159,946 in fiscal years 2020 and 2021, respectively. Since additional legislation was not passed, these increases should have been included in the elected official salary adjustment appropriation rather than the Public Service Commission appropriation.
- ♦ A statutory appropriation of \$40,000 for the Department of Natural Resources and Conservation was set up in error. The law from which the appropriation originated expired on June 30, 2019. Therefore, there should not have been an appropriation for fiscal year 2020.

After we communicated these issues to the office, the appropriations in SABHRS were corrected for all identified errors. The office also added an additional supervisory review process for budget implementation in order to prevent these issues in the future.

This deficiency is considered a significant deficiency and is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards* on page B-1. Significant deficiencies, such as those described above, could result in budget changes that are not valid appropriations passed by the legislature or misclassifications or errors in appropriations loaded into IBARS which are uploaded

into SABHRS. We referred this information to the Public Service Regulation and Department of Natural Resources and Conservation financial-compliance audits for further review of expenditures associated with these appropriations.

RECOMMENDATION #1

We recommend the Office of the Governor and Lieutenant Governor enhance review of appropriations loaded into the Internet Budget and Reporting System (IBARS) to ensure accuracy and completeness.

Preparation of Notes to the Financial Schedules

The Office of the Governor and Lieutenant Governor can strengthen internal controls to ensure the accuracy and completeness of the notes to the financial schedules.

The financial schedules contained in this report are considered special purpose financial statements. Per state policy, part of management's role is to establish internal control policies and procedures designed to verify accuracy and reliability of financial data. Per state policy, "Additional note disclosures may be necessary when special purpose financial statements contain items that are the same as, or similar to, those items included in financial statements prepared in accordance with GAAP." GAAP stands for Generally Accepted Accounting Principles.

The office did not include information in the notes to its financial schedules that completely or properly reflected the necessary disclosures. Omissions included the following:

- ♦ Disclosure describing changes to the financial schedule format.
- ♦ Disclosure describing the incorporation of the Lieutenant Governor's Office into the Executive Office program.
- ♦ Information on the unspent federal special revenue budget authority related to the Coronavirus relief funding.
- ♦ Information on the basis of accounting used for Federal Special Revenue Funds.

The office's internal review of its notes to the financial schedules did not identify these errors and omissions. While the office did correct these errors and omissions in the notes, it was after we identified and communicated them to the office.

The preparer has limited experience in note preparation. The office could consider training for the employees responsible for note preparation.

This deficiency is considered a significant deficiency and is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards* on page B-1.

RECOMMENDATION #2

We recommend the Office of the Governor and Lieutenant Governor strengthen internal controls over preparation of the notes to the financial schedules to ensure accuracy and completeness.

Independent Auditor's Report and Office Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Governor's Office for each of the fiscal years ended June 30, 2020, and 2019, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred inflows and outflows of resources, and liabilities.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2020, and June 30, 2019, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Governor's Office for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

Emphasis of Matters

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

As discussed in Note 5 – Expenditures, the Governor's Office combined the Lieutenant Governor's Office Program into the Executive Office Program in fiscal year 2020. The Lieutenant Governor's Office Program appears in a separate column on the fiscal year 2019 Schedule of Expenditures & Transfers-Out. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2020, on our consideration of the Governor's Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 3, 2020

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND EQUITY: July 1, 2019	\$ <u>(573,777)</u>	\$ <u>65,909</u>	\$ <u>0</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	5,898	176,961	93,367,220
Nonbudgeted Revenues & Transfers-In	19,841		29,819
Prior Year Revenues & Transfers-In Adjustments	25		
Direct Entries to Fund Equity	<u>6,454,718</u>		
Total Additions	<u>6,480,482</u>	<u>176,961</u>	<u>93,397,040</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	6,308,459	164,345	93,151,036
Nonbudgeted Expenditures & Transfers-Out	17,058		
Prior Year Expenditures & Transfers-Out Adjustments	<u>(44,422)</u>	<u>17,401</u>	
Total Reductions	<u>6,281,095</u>	<u>181,746</u>	<u>93,151,036</u>
FUND EQUITY: June 30, 2020	\$ <u><u>(374,390)</u></u>	\$ <u><u>61,125</u></u>	\$ <u><u>246,003</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND EQUITY: July 1, 2018	\$ <u>(307,968)</u>	\$ <u>116,671</u>	\$ <u>0</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	5,559	750,017	55,682
Nonbudgeted Revenues & Transfers-In	917		16
Prior Year Revenues & Transfers-In Adjustments		(66,211)	
Direct Entries to Fund Equity	<u>5,827,996</u>		
Total Additions	<u>5,834,472</u>	<u>683,806</u>	<u>55,698</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	6,104,332	733,650	55,698
Nonbudgeted Expenditures & Transfers-Out	(7,301)	917	
Prior Year Expenditures & Transfers-Out Adjustments	<u>3,250</u>		
Total Reductions	<u>6,100,281</u>	<u>734,567</u>	<u>55,698</u>
FUND EQUITY: June 30, 2019	\$ <u><u>(573,777)</u></u>	\$ <u><u>65,909</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Charges for Services	\$ 5,885	\$ 46,961	\$	\$ 52,846
Investment Earnings			246,003	246,003
Transfers-in		130,000	58,037	188,037
Inception of Lease/Installment Contract	19,841			19,841
Miscellaneous	38			38
Federal			93,093,000	93,093,000
Total Revenues & Transfers-In	25,763	176,961	93,397,040	93,599,764
Less: Nonbudgeted Revenues & Transfers-In	19,841		29,819	49,660
Prior Year Revenues & Transfers-In Adjustments	25			25
Actual Budgeted Revenues & Transfers-In	\$ 5,898	\$ 176,961	\$ 93,367,220	\$ 93,550,079

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Taxes			\$ 16	\$ 16
Charges for Services	5,474			5,474
Grants, Contracts, and Donations		137,740		137,740
Transfers-in	917	546,066	55,682	602,665
Miscellaneous	85			85
Total Revenues & Transfers-In	6,476	683,806	55,698	745,981
Less: Nonbudgeted Revenues & Transfers-In	917		16	933
Prior Year Revenues & Transfers-In Adjustments		(66,211)		(66,211)
Actual Budgeted Revenues & Transfers-In	5,559	750,017	55,682	811,258
Estimated Revenues & Transfers-In	1,665	865,091	55,600	922,356
Budgeted Revenues & Transfers-In Over (Under) Estimated	3,894	(115,074)	82	(111,098)
	\$	\$	\$	\$

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Transportation Program	Executive Office Program	Executive Residence Operations	Mental Disabilities BD Visitors	Office Budget & Program Planning	Office of Indian Affairs	Total
Personal Services							
Salaries	\$ 83,411	\$ 1,854,443	\$ 73,540	\$ 260,907	\$ 1,515,852	\$ 90,328	\$ 3,878,481
Employee Benefits	27,149	622,427	37,732	99,114	497,347	27,741	1,311,510
Total	<u>110,560</u>	<u>2,476,870</u>	<u>111,272</u>	<u>360,021</u>	<u>2,013,198</u>	<u>118,069</u>	<u>5,189,991</u>
Operating Expenses							
Other Services	15,234	169,547	4,818	12,002	65,316	17,572	284,489
Supplies & Materials	47,509	39,225	49,954	13,028	33,655	8,738	192,108
Communications	891	69,730	4,724	7,624	22,679	4,561	110,209
Travel	524	46,161	1,500	8,577	6,657	4,457	67,875
Rent		155,861	4,193	6,189	68,510	6,166	240,919
Repair & Maintenance	105,098	24,175	243	373	(30,047)		99,842
Other Expenses	2,061	161,465	4,577	3,955	48,922	(337,823)	(116,843)
Total	<u>171,317</u>	<u>666,163</u>	<u>70,009</u>	<u>51,749</u>	<u>215,692</u>	<u>(296,329)</u>	<u>878,601</u>
Equipment & Intangible Assets							
Capital leases - equipment		10,839			5,415		16,254
Total		<u>10,839</u>			<u>5,415</u>		<u>16,254</u>
Transfers-out							
Fund transfers		78,735			93,093,000	352,728	93,524,463
Total		<u>78,735</u>			<u>93,093,000</u>	<u>352,728</u>	<u>93,524,463</u>
Debt Service							
Capital Leases		2,496		826	1,247		4,568
Total		<u>2,496</u>		<u>826</u>	<u>1,247</u>		<u>4,568</u>
Total Expenditures & Transfers-Out	\$ <u>281,878</u>	\$ <u>3,235,104</u>	\$ <u>181,281</u>	\$ <u>412,596</u>	\$ <u>95,328,551</u>	\$ <u>174,468</u>	\$ <u>99,613,877</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 281,878	\$ 3,031,030	\$ 181,281	\$ 412,485	\$ 2,234,299	\$ 140,123	\$ 6,281,095
State Special Revenue Fund		147,401				34,345	181,746
Federal Special Revenue Fund		56,673		111	93,094,252		93,151,036
Total Expenditures & Transfers-Out	281,878	3,235,104	181,281	412,596	95,328,551	174,468	99,613,877
Less: Nonbudgeted Expenditures & Transfers-Out	(110)	10,337	(115)	3,220	3,873	(147)	17,058
Prior Year Expenditures & Transfers-Out Adjustments		(1,213)	357	(247)	(25,919)		(27,021)
Actual Budgeted Expenditures & Transfers-Out	281,988	3,225,979	181,038	409,623	95,350,597	174,615	99,623,840
Budget Authority	333,027	3,670,265	193,188	529,180	1,264,187,949	261,451	1,269,175,060
Unspent Budget Authority	\$ <u>51,040</u>	\$ <u>444,286</u>	\$ <u>12,150</u>	\$ <u>119,557</u>	\$ <u>1,168,837,352</u>	\$ <u>86,836</u>	\$ <u>1,169,551,220</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 51,040	\$ 443,730	\$ 12,150	\$ 119,557	\$ 2,165,856	\$ 74,581	\$ 2,866,913
State Special Revenue Fund		556			700,000	12,255	712,811
Federal Special Revenue Fund					1,165,921,495		1,165,921,495
Internal Service Fund					50,000		50,000
Unspent Budget Authority	\$ <u>51,040</u>	\$ <u>444,286</u>	\$ <u>12,150</u>	\$ <u>119,557</u>	\$ <u>1,168,837,352</u>	\$ <u>86,836</u>	\$ <u>1,169,551,220</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Transportation Program	Executive Office Program	Executive Residence Operations	Lieutenant Governor's Office	Mental Disabilities BD Visitors	Office Budget & Program Planning	Office of Indian Affairs	Total
Personal Services								
Salaries	\$ 86,500	\$ 1,856,506	\$ 75,112	\$ 228,986	\$ 218,019	\$ 1,419,197	\$ 87,794	\$ 3,972,114
Employee Benefits	27,270	595,151	37,706	76,536	84,748	477,345	27,399	1,326,155
Total	113,770	2,451,657	112,818	305,522	302,767	1,896,542	115,193	5,298,269
Operating Expenses								
Other Services	15,256	100,909	5,744	5,140	11,699	86,523	7,005	232,275
Supplies & Materials	47,626	46,217	50,228	1,069	4,622	22,856	1,282	173,900
Communications	748	39,150	5,351	2,855	6,924	21,010	4,486	80,524
Travel	2,591	51,742	1,299	15,307	10,750	4,719	896	87,304
Rent	323	147,045	3,644	5,936	6,950	68,338	6,039	238,276
Repair & Maintenance	47,247	31,997	472		292	65,160		145,168
Other Expenses	4,768	142,450	5,015	3,285	3,379	57,146	356,688	572,731
Total	118,559	559,510	71,753	33,592	44,616	325,751	376,396	1,530,178
Equipment & Intangible Assets								
Equipment	209							209
Total	209							209
Transfers-out								
Fund transfers	917	60,973						61,890
Total	917	60,973						61,890
Total Expenditures & Transfers-Out	\$ 233,456	\$ 3,072,139	\$ 184,571	\$ 339,114	\$ 347,384	\$ 2,222,293	\$ 491,589	\$ 6,890,546
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 232,539	\$ 2,444,105	\$ 184,571	\$ 337,800	\$ 347,384	\$ 2,222,293	\$ 331,589	\$ 6,100,281
State Special Revenue Fund	917	572,336		1,314			160,000	734,567
Federal Special Revenue Fund		55,698						55,698
Total Expenditures & Transfers-Out	233,456	3,072,139	184,571	339,114	347,384	2,222,293	491,589	6,890,546
Less: Nonbudgeted Expenditures & Transfers-Out	404	(2,956)	(214)	(315)	(475)	(2,656)	(173)	(6,384)
Prior Year Expenditures & Transfers-Out Adjustments	2,455	246	526			23		3,250
Actual Budgeted Expenditures & Transfers-Out	230,597	3,074,848	184,259	339,429	347,858	2,224,926	491,762	6,893,680
Budget Authority	315,669	3,342,607	188,884	345,508	387,381	2,867,635	498,904	7,946,588
Unspent Budget Authority	\$ 85,072	\$ 267,759	\$ 4,625	\$ 6,078	\$ 39,523	\$ 642,709	\$ 7,142	\$ 1,052,908
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 85,072	\$ 135,753	\$ 4,625	\$ 5,522	\$ 39,523	\$ 361,978	\$ 7,142	\$ 639,615
State Special Revenue Fund		132,006		556		255,731		388,293
Internal Service Fund						25,000		25,000
Unspent Budget Authority	\$ 85,072	\$ 267,759	\$ 4,625	\$ 6,078	\$ 39,523	\$ 642,709	\$ 7,142	\$ 1,052,908

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Governor and Lieutenant Governor

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The Governor's Office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. A change to the financial schedule format was approved by the Legislative Audit Committee on June 16, 2020, changing the basis of presentation and removing revenue estimates from the Schedule of Total Revenues & Transfers-In. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The Governor's Office is typically funded with 100% general fund in HB2.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds include support from other state agencies to fund interagency projects in both fiscal years. Fiscal

year ended June 30, 2019 includes support from a non-state agency and one-time-only appropriations to support economic development activities tied to HB 642. Fiscal year ended June 30, 2020 includes funds to provide Tribal Relations Training.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds include support from agencies to fund interagency projects in fiscal year ended June 30, 2019 and Coronavirus Relief Funds in fiscal year ended June 30, 2020.

2. General Fund Equity Balance

The fiscal year ended June 30, 2019 contains a transfer to close a residual State Special Revenue equity balance into the General Fund. The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2109 and June 30, 2020.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General Fund for both fiscal years include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Unspent Budget Authority

Unspent budget authority in the Office of Budget and Program Planning includes funds for personal services contingency funding for both fiscal years in each fund type. The unspent balance for the fiscal year ended June 30, 2020 will carry forward into the next fiscal year of the biennium. Unspent Federal Special Revenue budget authority in the Office of Budget and program planning also includes \$1,156,907,000 for Coronavirus Relief programs and \$8,764,495 for the Governor's Emergency Education Relief grant.

Unspent State Special Revenue budget authority in the Executive Office for the fiscal year ended June 30, 2019 includes appropriation remaining from a transfer related to HB 642 and authority related to agreements with other state agencies and an outside entity. The unspent balance for the fiscal year ended June 30, 2020 contains authority for a training provided by the Office of Indian Affairs.

5. Expenditures

During the fiscal year ended June 30, 2019, the Lieutenant Governor's Office Program and associated appropriation of \$353,078 was restructured into the Executive Office Program. This is visible on the Schedule of Expenditures and Transfers-Out.

The personal services expenditures included in the Executive Program for the fiscal year ended June 30, 2019 include staff that were funded from an outside entity. That person has retired, and that agreement is no longer in place. Expenditures for both fiscal years include staff that are funded through inter-agency agreements and funding.

An operating accrual of \$352,728 was done for the Tribal Flag project in fiscal year ended June 30, 2019. The funding was then transferred in fiscal year ended June 30, 2020, along with an additional \$75,000 from the Executive Office, when Architectural and Engineering Division took over the project.

Fiscal year ended June 30, 2020 displays new accounting treatment for leased photocopiers. Offsetting entries for the capital lease are in the entitywide ledger and not reflected in the financial schedule.

6. Revenue

State Special Revenue for fiscal year ended June 30, 2019 shows a prior year transfer of \$66,211 to return cash given to the Governor's Office related to HB 642 from the 2017 Session. Revenue was returned to the agency owning the fund during fiscal year 2019 by reducing the transfer in, similar to the first year of the biennium. Revenue related to an agreement with an outside entity and other state agencies, including \$160,000 for the Tribal Flag Project, is also included in fiscal year ended June 30, 2019.

State Special Revenue, for fiscal year ended June 30, 2020 is for an interagency agreement and funds collected for the Tribal Relations Training.

Federal Special Revenue for June 30, 2020 is related to Coronavirus Relief funding, Board of Investment earning and expenses and \$58,037 given to the Governor's Office for reimbursement of costs directly related to supporting Coronavirus relief efforts.

7. Montana Ambassadors

The Governor's Office has a relationship with the Montana Ambassadors. The Montana Ambassadors is a nonprofit organization consisting of volunteers whose membership is approved by the Governor to act as official ambassadors of the state of Montana.

Members assist the Governor's Office of Economic Development and the Department of Commerce with business, trade, and tourism development programs.

For fiscal years 2019 and 2020, the Governor's Office paid \$19,857 and \$26,565 respectively for costs associated with business mentorship and business networking events both in state and out of state.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Governor's Office for each of the fiscal years ended June 30, 2020, and 2019, and the related notes to the financial schedules, and have issued our report thereon dated December 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may

exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control that we consider to be significant deficiencies. The identified significant deficiencies are described in findings on pages 7 through 9 of the audit report. These deficiencies relate to the need to enhance internal controls over the preparation process of the notes to the financial schedules and the process for loading appropriations into the accounting records.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Governor's Office Response to Findings

The office's response to the findings identified in our audit are described on page C-1 of this report. The office's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 3, 2020

OFFICE OF THE
GOVERNOR AND
LIEUTENANT GOVERNOR

OFFICE RESPONSE

OFFICE OF THE GOVERNOR
STATE OF MONTANA

C-1

GREG GIANFORTE
GOVERNOR



KRISTEN JURAS
LT. GOVERNOR

February 19, 2021

RECEIVED

FEB 19 2021

LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Subject: Financial Compliance Audit 20-23: Governor's Office

Dear Mr. Maciver

Thank you for the opportunity to respond to the Financial-Compliance Audit of the Montana Office of the Governor and Lieutenant Governor for the two fiscal years ending June 30, 2020. We appreciate the professionalism of the audit team and the good communication, and we are pleased that the audit found our financial schedules presented fairly.

The audit cites two concerns over internal controls. We concur with these two recommendations and will ensure processes are in place to prevent future control findings.

Recommendation #1

We recommend the Office of the Governor and Lieutenant Governor enhance review of appropriations loaded into the Internet Budget and Reporting System (IBARS) to ensure accuracy and completeness.

Response:

Concur. The Office of Budget and Program Planning immediately corrected the two transactions in question when they were identified by audit staff. The office has added an additional level of supervisory review to the budget implementation process to ensure these issues don't occur in the future.

Recommendation #2

We recommend the Office of the Governor and Lieutenant Governor strengthen internal controls over preparation of the notes to the financial schedules to ensure accuracy and completeness.

Response:

Concur. The office agrees and will have staff devote more time to writing and reviewing the formatting of the financial note disclosure to confirm it complies with legislative audit guidelines and that the disclosure is written to ensure a broader audience could easily understand our financial statements.

The Coronavirus has created many challenges in this past year. I understand that you and your audit team accommodated our staff with online meetings and electronic transfer of documentation during our audit. I want to thank you for the consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Kurt Alme', with a stylized, flowing script.

Kurt Alme
Budget Director